

Food Cost Review, 1950-97. By Howard Elitzak, Food and Rural Economics Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 780.

Abstract

Food prices, as measured by the Consumer Price Index (CPI), increased 2.6 percent in 1997. This increase was greater than the overall increase in the CPI (which rose 2.3 percent) for the third consecutive year. Higher charges for processing and distributing food, as measured by the farm-to-retail price spread, were primarily responsible for the 1997 increase. The prices farmers received for commodities, as measured by the farm value of USDA's market basket of foods, dropped 4.4 percent. The farm value share of the food dollar spent in grocery stores in 1997 was 23 percent, a decrease of 2 percent from 1996. The farm-to-retail price spread of USDA's market basket of foods rose 4.7 percent, partly reflecting higher prices of inputs, such as labor.

Keywords: Retail food prices, farm-to-retail price spread, farm value share, food marketing costs, food spending, profits, productivity.

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Summary

Food prices rose 2.6 percent in 1997, as measured by the Consumer Price Index (CPI), a smaller increase than the 1996 increase of 3.3 percent. The CPI for all goods and services rose 2.3 percent in 1997.

Grocery store food prices rose 2.5 percent in 1997, a smaller increase than the 3.7-percent rise of 1996. The food groups whose retail prices increased the most in 1997 were pork, nonalcoholic beverages, and other prepared foods. Higher grocery store food prices were largely due to higher marketing costs. These price increases were held in check by lower grain prices, large supplies of competing meats, and ample supplies of fresh produce.

Restaurant meal prices went up 2.8 percent, slightly more than the 2.5-percent increase in 1996, consistent with the pattern of relatively small restaurant price increases during the 1990's. These small price hikes were largely due to increased competition among restaurants, which held down menu price increases. However, the 1997 increase was the largest since 1991's 3.4-percent hike. This rise reflected a tight labor market that featured low unemployment rates due to the strong economy. A Federally mandated minimum wage increase further augmented 1997 restaurant operating costs and, therefore, prices paid by consumers.

The farm value of USDA's market basket of foods—based on prices farmers received for commodities—declined 4.4 percent in 1997, the first decrease since 1994, and the largest drop since 1991. (The market basket contains the average quantities of food that mainly originate on U.S. farms and are purchased for consumption at home in a base period, and excludes seafood and nonalcoholic beverages.) This decline reflected lower farm prices for most commodities. The 1997 farm value of food averaged 23 percent of the retail cost of the market basket, about 2 percent less than in 1996. However, the share has generally declined over time as abundant food supplies held down farm prices, and rising processing/distributing charges boosted retail prices. The farm value share was 37 percent in 1980.

The farm-to-retail price spread—the difference between the farm value and retail price of food—rose 4.7 percent in 1997, partly reflecting higher prices of marketing inputs such as labor and energy. The increase in the 1997 farm-to-retail price spread was larger than in 1996. The farm-to-retail price spread increased for all food groups. Higher costs for labor, packaging, energy, transportation, and other marketing inputs push the spread wider nearly every year. The cost of these inputs after the products leave the farm has a greater effect on retail prices than do fluctuations in prices received by farmers.

Consumers spent \$561 billion for food produced on U.S. farms in 1997. This amount includes purchases of farm foods in grocery stores (which account for about 60 percent of total consumer food expenditures) and at away-from-home eating places. Seventy-nine percent of this total, or \$441 billion, went to pay the

marketing bill. The remaining 21 percent of 1997 food spending went to farmers, who received about \$120 billion for food commodities. This figure is lower than the 23-percent farm value share for the market basket of foods because it includes the much lower farm value share of away-from-home food spending.